2022 Thomson Reuters Anti-Money Laundering Insights Survey

How does your organization compare with competitors and colleagues across the financial services industry? Are you keeping up or falling behind?

THOMSON REUTERS®

Staying compliant with anti-money laundering (AML) regulations is like dancing a jig on an icy slope while juggling a dozen rubber balls. It's likely that some balls will be dropped, and each dropped ball could lead to potentially severe penalties.

If you're involved in AML and customer due diligence (CDD) activities for your organization, you're aware of the challenge. You know you must navigate through a complex web of regulations. You understand that the technologies involved are rapidly changing. And you recognize that the laws with which you must comply, particularly on a global basis, are continuously in flux.

But what you might not know is just how your organization's AML and CDD efforts compare to those of your peers — and competitors — throughout the financial services industry. By gaining this understanding, you can better evaluate the success of your approach to AML and CDD, as well as where you might need to do some work. Seeing how other organizations approach AML and CDD can highlight areas in which your organization might be falling behind.

Every year since 2018 (with the exception of 2020), Thomson Reuters® has published an in-depth survey report detailing AML and CDD efforts across the financial services industry. The purpose is to provide a sounding board for financial services organizations, helping them compare, contrast, and evaluate their own AML and CDD efforts. The 2021 version reveals a number of consistencies from past years but also flags changes and trends.

Without further ado, let's dive into some of the key takeaways from this survey.

Processes and procedures: Information collection and risk rating are changing slightly, and more organizations are seeking help from technology
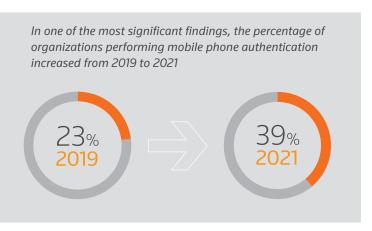
Although financial services organizations participating in the survey performed AML and CDD activities in much the same way as in previous years, there were some notable differences that may hint at future trends that would be worthwhile to keep an eye on.

In 2021, the survey took a deeper dive into understanding how (and if) survey respondents' vet prospective customers' sources of funds and wealth. Exactly half of the organizations reported that they do seek information about the source of *funds*, excluding digital currencies or tokens. But far less than half sought information about the source of *wealth*, or the source of funds that included digital

Exactly half of the organizations reported that they do seek information about the source of funds, excluding digital currencies or tokens. But far less than half sought information about the source of wealth, or the source of funds that included digital currencies or tokens.

currencies or tokens. As cryptocurrencies continue to evolve, these findings suggest that organizations remain unclear about their approach to monitoring the influence of digital currencies or tokens — and will need to develop strategies to address this in the future.

This year's report also notes changes in the various processes used to perform digital identity verifications. In one of the most significant findings, the percentage of organizations performing mobile phone authentication increased from 23% in 2019 to 39% in 2021. The percentage of organizations making no effort at all to perform digital identity verification dropped from 38% in 2019 to just 23% in 2021.

In one of the most significant findings, the percentage of organizations performing mobile phone authentication increased from 2019 to 2021

23% 2019 → 39% 2021

And four new digital identity verification methodologies appeared for the first time in the 2021 survey:

- ID capture services (22%)
- Digital footprint validation (21%)
- Biometric authentication (15%)
- Optical character recognition (8%)

These new methods are indicators of the shift to digital tools and methodologies, which is significantly affecting all industry verticals, including financial services organizations. And these organizations need tools that accommodate both the necessities and the opportunities that accompany the move to digital. The four new digital identity verification methodologies serve as just one example of the range of opportunities that a digital approach provides: new methodologies for uncovering attempted fraud.

The processes by which organizations develop customer risk ratings were not greatly changed in 2021; customer activity, geographic

location, and transaction history continue as the top three criteria used. However, geographic location was used substantially less in 2021, and somewhat less reliance was placed on a number of risk rating criteria in 2021, including:

• Political exposure

• Associated persons

• Estimated income

• Customer mobility

Continuous post-screening customer monitoring remains common, with 70% of organizations continuously monitoring customers in 2021. Compliance and regulatory requirements are driving the need for continuous customer monitoring, and technology is helping to meet that need. Technology also enables more in-depth forms of customer monitoring beyond just transaction and unusual activity monitoring. A significant change for 2021 is that 36% of survey respondents are now utilizing external third-party providers to perform continuous customer monitoring. That's up from less than a fourth (24%) in 2018.

A significant change for 2021 is that many more survey respondents are now utilizing external third-party providers to perform continuous customer monitoring.

24% 2018 ⟶ 36% 2021

As with previous surveys, the 2021 survey found that organizations track a broad range of relevant topics and issues. In 2021, the top three issues or topics monitored by financial services organizations were:

1. Virtual currency/cryptocurrency/blockchain (21%)

2. Regulatory changes (20%)

3. Anti-money laundering (19%)

The 2021 survey also found that an increasing number of organizations are deploying new processes to make AML and CDD programs more effective and efficient. The purchase of new software and the integration of automation top the list of process changes under consideration.

Data solutions and decisions: Organizations are more dissatisfied with their data and are turning to technology for better results

Data drives decisions, and the quality of an organization's decision-making processes is inextricably linked to the quality of its data. This year, survey respondents were asked how satisfied and confident they are with the accuracy of data acquired from their primary data providers. The answer was, unfortunately, "not very."

Only one in five respondents (20%) reported that they were extremely satisfied and confident with their primary data provider in 2021 — that's down from 26% in 2018. More than half (58%) of the organizations offered a tepid "somewhat confident" rating of their data provider.

Unsurprisingly, the top three criteria that organizations evaluate when selecting a data provider for AML and CDD processes are all related to quality:

1. Accuracy of the data

2. How well-structured the data is

3. The reputation and credibility of the provider

It also comes as no surprise that most organizations now use some form of technology to help manage AML programs. Nearly a third use an automated system to manage customer screening workflows and for records management. Nearly one in five organizations use a single automated system for managing the entire AML and CDD process, from screening to monitoring to records management.

Only one in five respondents (20%) reported that they were extremely satisfied and confident with their primary data provider in 2021 — that's down from 26% in 2018. More than half (58%) of the organizations offered a tepid "somewhat confident" rating of their data provider.

Challenges and trends

Our survey revealed some significant trends on the AML and CDD fronts in financial services this year. Read on to discover how your peers responded to some of the top trends and challenges.

Good and bad news about the ease of regulatory compliance

Continuing the trend from previous years, most 2021 survey respondents reported ongoing challenges in maintaining compliance with regulatory mandates.

The good news is that only one in ten respondents experienced a regulatory action related to AML and CDD compliance. Additionally, survey respondents report that it's becoming less of a challenge to remain compliant with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In 2018, 19% of companies reported that Dodd-Frank compliance represented somewhat of a challenge. In 2019, that percentage increased to 22%. But in 2021, the percentage of companies that were at least somewhat challenged by Dodd-Frank plummeted to just 11% — a 50% drop from the last survey. It's worth noting, however, that a small but stable percentage of companies find Dodd-Frank compliance to be a significant challenge: 7% in 2018, and 6% in both 2019 and 2021.

The bad news relates to the Anti-Money Laundering Act of 2020 (AMLA 2020). The single most challenging issue in complying with the act stems from the new beneficial ownership disclosure requirements; 46% of survey respondents reported significant challenges in complying with that provision. Very nearly the same percentage (45%) reported difficulties imposed by the expansion of AML law to codify jurisdiction over virtual currency activities. More than a third (35%) of respondents noted challenges associated with the development of regulatory solutions that place an increased focus on emerging technologies. Additional but less vexing challenges resulting from AMLA 2020 include:

- Expanded subpoena authority over foreign financial institutions accessing the U.S. market (18%)
- New penalties for concealing transactions involving foreign officials (14%)
- The enhanced whistleblower program (11%)

New trends bring both opportunities and difficulties: Cryptocurrency and automation

The top challenges reported by survey respondents in 2021 — tied at 39% each — are issues related to cryptocurrency and automation. Cryptocurrency slightly edges out automation as the most challenging issue: 21% percent rated cryptocurrency issues as a somewhat challenging issue, and 18% as significantly challenging. And no wonder, cryptocurrency, now under AMLA 2020 regulations, requires additional transaction monitoring, and involves many complexities — requiring organizations to learn and adapt quickly.

The challenges of automation introduce a host of complexities to financial services organizations. As more companies turn to technology to address challenges, the proliferation of automated solutions raises some important questions. How is automation best implemented in your unique organization? Where can you use automation to streamline processes? Does your current vendor offer APIs and plug-and-play capabilities?

So it's no surprise that 17% of respondents rated automation as a significant challenge, while slightly more (22%) rated it as somewhat challenging.

Additional trends that represented challenges to our respondents in 2021 include:

- Real-time payments (35%)
- Remote employees (28%)
- Environmental, social, and governance (ESG) monitoring (23%)
- AMLA 2020 (20%)
- Corporate Transparency Act of 2019 (CTA) (19%)
- Fair Credit Reporting Act (17%)

....

The bad news relates to the Anti-Money Laundering Act of 2020 (AMLA 2020). The single most challenging issue in complying with the act stems from the new beneficial ownership disclosure requirements; 46% of survey respondents reported significant challenges in complying with that provision.

....

A new challenge revealed: The ability of regulators to stay current on technology

When asked to evaluate how well their regulators stay up to date on technology in the BSA/AML space, only 42% said to a good or great extent and 57% said OK, poorly, or not at all. This lack of confidence likely feeds similar concerns about regulators' lack of understanding around emerging issues and trends — a significant concern for organizations because it can keep them from moving into new areas. If you must first prove to regulators that your new initiative is safe, that can hinder your growth and competitiveness.

To be fair, new technologies such as cryptocurrencies and automated processes are moving fast. Legislatures and other governing bodies are in the same boat as financial services organizations — all are scrambling to learn about a wide array of groundbreaking technologies as they emerge. All parties will need to work together to stay educated and informed as they partner to develop best practices and new approaches.

How does your organization compare?

Perhaps the key takeaway from the 2021 survey is that financial services companies of all sizes are increasingly turning to technology solutions for gathering and managing AML and CDD information and processes. And we're predicting that future surveys will show continued acceleration in the use of technology. The 2021 survey, in fact, found that more companies than ever before depend upon third-party provider tools such as:

- Sanctions-screening solutions
- Negative news–screening solutions
- Continuous customer relationship–monitoring solutions

What about the 8% of financial services companies that continue to use outdated practices such as relying on open-source searches as their primary AML and CDD information-gathering tool? It looks like the path to the future will be bumpy for companies that don't avail themselves of all competitive advantages.

We're predicting that future surveys will show continued acceleration in the use of technology.

Visit **Thomson Reuters financial services resource center** to learn more.

THOMSON REUTERS®